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Louisiana Deferred Compensation Commission Meeting October 11, 2011

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, October 11, 2011, in the offices of the Plan Administrator, 2237 South Acadian Thruway, Suite 702, Baton Rouge, Louisiana 70808.

Members Present

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Robert Henderson, Participant Member
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Designee of the State Treasurer
Len Riviere, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

Members Absent

None

Others Present

Richard McGimsey, Director, Civil Division, Louisiana Dept. of Justice
David Lindberg, Consultant, Wilshire Associates, Inc.
Felicia Bennett, Consultant, Wilshire Associates, Inc. (*By Conference Call*)
Theresa Myers, Vice President, PNP Client Relations
Connie Stevens, Regional Director, Baton Rouge GWRS
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWRS

Call to Order

Chairman Bares called the meeting to order at 10:00 a.m.

Approval of Commission Meeting Minutes of August 16, 2011

The minutes of August 16, 2011 were reviewed. Mr. Riviere motioned for acceptance of the minutes. Ms. Burton seconded the motion. The Commission unanimously approved the minutes.

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Acceptance of Hardship Committee Report of September 2, 2011

Ms. Burton motioned for acceptance of the Hardship Committee Report of September 2, 2011. Ms. Hubbard seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Plan Update as of September 30, 2011 was presented by Ms. Stevens. Assets as of September 30, 2011: \$1.040 billion. Asset change YTD: \$-10.19 million. Contributions YTD: \$77.49 million. Distributions YTD: \$50.48 million. Net Investment loss YTD: \$-37.20 million.

Participation by Asset Class and Investment Option: Stable Value has increased to 52.7% of the Plan total due in part to participants moving money to the investment and because the variable options have lost ground.

Securities Sold in the Louisiana Stable Value Portfolio for July and August, 2011:
Reviewed by the Commission

Commission Activity Fund (CAF)-August and September: Additions included participant recoveries, mutual fund revenues, Stable Value revenues and interest. Deductions included fees for legal services, audit services, recordkeeping and a reimbursement of travel expenses for NAGDCA. Ending balance at the end of September was \$2.849 million.

Loan Data Update: Percentage of total participants with loans in the plan has grown from 2.50% in 2007 (a new feature in 2007) to 7.50% in 2011. Outstanding loan balances by total percentage of plan balance is 1.40%.

Marketing Report (August and September)

New participants added to the plan over the two month period of August and September, 2011: 304 with an average per application of \$3,091. The Plan saw 234 increases at an average of \$5,468 due in part to the 300 hours activity (participants leaving State employment and increasing their last pay check to meet the annual contribution limit).

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Hunt Correctional Center allowed Great-West representatives access to employees which they have not done in the past. October is “Benefits Fair” month and Great-West representatives are actively visiting many sites such as: LA Personnel Council, UNO and Angola. Benefits fairs are now offered in October because of the change in the benefits enrollment from a fiscal year to a calendar year.

Website Conversion Update: The following Commission members participated in the web design discussion after the August 16, 2011 Commission Meeting: Emery Bares, Andrea Hubbard and Whit Kling. Tremendous progress was made and suggestions submitted have been incorporated into the design. The full launch of the new website is anticipated for April of 2012.

Website security: The Great-West Information Security Policy (ISP) ensuring security and confidentiality of sensitive information and establishing proper handling practices was reviewed by the Commission. Participant information is important and is treated very seriously by Great-West. There was discussion related to the 4-digit pin number assigned to new participants wishing to access their accounts on line. Ms. Stevens confirmed that participants are prompted to change their pin number/user ID/password upon initial access. In the event a password has not been used over a certain number of months, it is voided for lack of activity. A temporary password can be requested by phone where a participant’s identity is verified and a temporary password that is valid for 24 hours is issued. The password format is not limited to four digits and participants are encouraged to change their password making it more complex to include upper and lower case letters and numeric values.

Testimonial Video: The City of Baltimore testimonial video was presented to the Commission in August. The Commission approved the development of a testimonial, marketing video for the State of LA. Volunteers and plan participants who are avid supporters will add their comments to the video. No Commission members volunteered to be in the video.

Wilshire Associates: Investment Review and RFP Discussion:

Investment Performance Analysis: Mr. Lindberg presented the “Flash Report” for Quarter Ended 9/30/11. The third quarter was a bad quarter for the markets. Index returns of note: Large Cap stocks were down more than 9% YTD; Mid Cap Growth stocks were down 11.59%; Small Cap stocks: Down 8.5% YTD. Non-US section:

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Developing markets were down just under 17%. Emerging Markets: Down 21.88% YTD. It was a “bloodbath” in every market for the quarter. However, assets are not down very much in total as half of the assets are in the Stable Value Fund. Upon review of all the investments in the Plan for the quarter ended 6/30/11, it was noted that the following investments will be on watch: Touchstone Mid Cap Growth due to its acquisition of Old Mutual, American Funds Growth for performance, and Ariel Fund for changes in its research personnel.

RFP Discussion: Wilshire noted the Great-West Services recordkeeping contract is set to expire on December 31, 2012. By the second quarter of 2012, an RFP should be developed, written and ready to be issued. The key emphasis for the Commission at this point is that everyone understands the services currently provided by Great-West and that, as we write the RFP, these services are still the ones the Commission wants performed. The services must be clearly stated in the RFP. Ms. Stevens reviewed staffing requirements of the LA Deferred Compensation office: Regional Director (Ms. Stevens) and three administrative staff in the Baton Rouge office. There are six, full-time field representatives (2-Baton Rouge, 1-Lafayette, 1-North LA, 1-New Orleans, 1-Middle part of the state) who work outside of the office for the Plan. The field staff partners with LASERS to offer quarterly seminars, participate in LASERS PREP seminars and answer participant questions. Great-West performs the same recordkeeping functions for LASERS as they do Deferred Comp. LASERS has a contract with Great-West similar to that of Def Comp and Great-West regarding compensation. A percentage of the staff-time is allocated to LASERS which is primarily an educational role. This is a small percentage because LA Def Comp is the larger of the two plans. Ms. Myers commented that initially, a pricing model includes a review of the percentage of time allocated to both plans. As the contract is priced, Great-West takes into consideration that the audience is the same and that the plans are located in the same geographical area. Ms. Bennett indicated that a list is currently being developed of the types of questions that need to be spelled out clearly in the scope of services so that submitted bids reflect “apples to apples” comparison. Review of the legislation related to the plan will also be presented at the December meeting by Mr. McGimsey. Discussion must also include pricing related to the Stable Value. There are two separate contracts between the recordkeeping (December, 2012) and Stable Value (notification period/no deadline). The cost of the wrapper has gone up significantly since the Commission established the

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contract. Ms. Bennett indicated that there are bundled providers out there who bundle recordkeeping and investment product which means the scope would go beyond the Stable Value. Currently, the plan structure allows for making decisions about investment options without having to consider how the move would affect recordkeeping pricing. Currently, Great West performs two separate services for the plan. As a recordkeeper, administrative responsibilities are performed following direction found in the Plan Document. The second part of the services provided is investment services. AAG accepts fiduciary responsibility, not Great-West. The inception of the current contract was in 2002. The contract was extended in 2009 amending the participant fee structure. This extension expires in 2012. The LASERS contract expires with Great-West in 2013. LASERS will be discussing this contract separate and apart from the Deferred Comp contract during the month of October and going forward.

Wells Fargo Agreement: Mr. McGimsey commented that the Commission has had an agreement with Wells Fargo to be custodian for the Plan. There is no term to the agreement. Wells Fargo has requested a modification to increase the \$2000 administrative services fee to \$2500 per year. They also asked that the agreement be amended to provide that the other services that come up in addition to those covered by the administrative fee be paid upon mutual agreement of both parties. The recordkeeping function is integrated with the trust system which allows Great-West to balance across the board on a daily basis. It is not a totally separate system. Mr. Kling made a motion to increase the base fee to \$2500. Mr. Searles seconded the motion. The Commission unanimously approved the increase. Mr. Bares will sign the amended fee schedule paperwork.

Legacy Insurance Products: The recent audit included information related to allocated life insurance products that came into being in the 1970's, prior to Great-West being the recordkeeper and before the Commission came into existence. These life insurance products were the mechanism used to fund Deferred Compensation. There are currently 137 contracts. Twenty-two of the contracts are still receiving contributions/premium payments. Of the total, 115 have been "reduced-paid up" (using cash value to support the life insurance). Mr. Kling expressed concern that there may be some liability on a product like this. Without a distributable event, the participant cannot be "forced" to do anything with the policy because they could be giving up a death benefit that is much higher than the cash value. The only action to be taken, is to research to find participants

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who are in a distributable event category and ask them to either assume ownership of the policy or cash it out. The 22 that are still contributing are still employed. Great-West (Denver) has a team of employees whose job it is to work exclusively with old policies. The Commission suggested Great-West ask the 115 participants to put the policy in their name once it is verified that they are terminated. Ms. Stevens will address this issue with the Great-West insurance department and will present findings at a later time.

Evaluation Committee: Ms. Burton noted that the Evaluation Committee consisted of Mr. Kling, Mr. Searles and herself. The Committee produced a letter to be posted on the Plan's website along with the following attachments: 2010 Audit Report, Executive Summary by Wilshire for year-end 2010 and the Evaluation of the Plan Administrator.

Plan Administrator Evaluation: Mr. Lindberg referred to a memo that includes findings from an RFI 2010 Evaluation and onsite visit during the summer of 2010. Wilshire is satisfied from a capacity standpoint, that Great-West is fulfilling their obligations. The evaluation included information related to Great-West, services offered to Louisiana participants, Reality Investing suite of services, fiduciary status (AAG is a fiduciary over assets which they managed), regulatory services/compliance, communication and reporting, availability of investment product information and fees. In conclusion, Wilshire is very comfortable in stating that Great-West is fulfilling their obligations as record keeper and program administrator. Ms. Hubbard made the motion to accept the Evaluation Committee report. Mr. Riviere seconded the motion. There was no objection and the report was accepted as presented.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:39 a.m.

Virginia Burton, Secretary

